

Fixed Asset Requirements

Office of Public Instruction (10/02)

“Fixed assets” are:

- (1) Tangible property items,
- (2) Of a relatively permanent nature,
- (3) Of significant value, and
- (4) Used in conducting the government’s activities.

They include land, buildings, machinery, furniture, and other equipment which the district intends to hold or continue to use over a long period of time. “Fixed” indicates the intent for long-term use, not the immobility of an asset.

“Capitalization” is the process of recording an item as a fixed asset. Payment for the item is a capital outlay.

Capitalization Policy: The district should establish written capitalization policies. Because the administrative costs of keeping fixed asset inventory records in detail might outweigh the benefits of management control if all items were recorded as fixed assets, OPI recommends the district record: land, buildings, building improvements, machinery, furniture, and other equipment which cost \$5,000 or more and have a useful life of one year as fixed assets.

In addition, Federal grant regulations require the district to capitalize assets purchased using federal moneys at \$5,000 or more. Similar items purchased together, or items to be used as one system, which total \$5,000 in aggregate should also be capitalized. Using these guidelines, items costing less than \$5,000 would not be recorded as fixed assets (i.e., capitalized), but their cost would be recorded as an expenditure under minor equipment, supplies, etc. Inventory records may be established and maintained for control or insurance purposes for items under \$5,000, but the cost for items under \$5,000 should not be included in the amount reported in the GFAAG.

OPI’s recommended capitalization policy of \$5,000 is optional. The district may set any lower amount for the capitalization policy but may not set a higher limit.

How To Establish and Maintain Fixed Asset Inventory Records

To establish and maintain the fixed asset records, school districts may hire professional appraisers or may manage the records themselves using the following suggested procedures:

1. Determine who will be responsible for the establishment and maintenance of a fixed asset control system.
2. Establish board policies for fixed asset control. Procedures for purchasing fixed assets, recording them on the inventory records, periodically making a physical inventory count, disposing of assets, and updating inventory records should be established as written district policies. The district’s policy should establish a cost and estimated life

expectancy to use as criteria to determine which items. OPI suggests that items that cost \$5,000 or more and have an estimated useful life at acquisition of one or more years should be capitalized. Federal grant regulations require the district to capitalize assets purchased using federal moneys at \$5,000 or more. However, the district may choose different criteria for non-federal asset purchases. See 5-1200-2, MCA.

3. Determine who will perform the original inventory count. District personnel or contracted appraisers may be needed to help establish the first inventory of fixed assets.

4. Prepare and distribute a statement of the board's objective to those who will help with the count. In small schools, teachers might be assigned to count assets in a classroom or other area. In larger districts, the principals or other area administrator might be assigned to oversee the count of a school's assets. If an area or asset is used by more than one program or administrator, the responsibility for the area or asset should be reassigned to one person or program. The statement of objective should state the preliminary asset classification plan (e.g., items \$5,000 or more with life of 3 or more years) and any definitions needed to classify assets properly under the plan.

5. The board or superintendent should request each administrator to count the fixed assets in that administrative unit's control on or by a certain date. No cost determination is made at the time items are counted. A report using the terms and definitions in the classification plan should be prepared by the unit administrators. The report should be requested well in advance of the due date to allow ample time to complete the report accurately and completely.

6. Assets leased by the district on an operating, or rental-type, lease should not be included on fixed asset records because legal rights to the property do not belong to the district. Assets leased by the district in lease-purchase agreements must be counted as assets owned by the district.

7. Determine the value of the assets to be included in the fixed asset inventory records. Fixed assets should be valued at cost or at estimated cost if historical records of the cost are not available. Donated assets should be valued at their estimated fair market value at the date of acquisition. Other resources, such as minutes of past board meetings, may be used to determine historical costs of items if invoices are not available. Information such as cost and the date of purchase may not be known for assets acquired in prior years because invoices and other historical documentation is not available. The cost, date of purchase, and remaining useful life of the asset may be estimated. See School Accounting manual, Section 5-1230.10, "ESTIMATING COSTS OF FIXED ASSETS."

8. Prepare inventory ledger cards for fixed assets by account type:

General Ledger

Account Number

311 Land

321 Land Improvements

331 Buildings and Building Improvements

341 Machinery and Equipment

351 Construction Work in Progress (see section 5-1400, "Construction Work in Progress")

Assets which the district chooses to include on the inventory ledger system but which will not be capitalized (e.g., a hand held calculator which cost only \$25 but is recorded due to high theft potential) would be recorded in the ledger in the most appropriate asset category (e.g., 341). The total cost shown on asset ledgers may therefore differ from the total asset value reported on financial statements.

Ledgers for non-capitalized property may be marked or color-coded to identify them separately from items capitalized. This would aid the district or auditors in verifying the costs capitalized. Each item should be assigned and marked with a unique inventory item number to facilitate future verification and control of school property. If a group of similar items is to be considered one aggregate item, the property number should be assigned and marked on each piece. (See School Accounting Manual, Section 6-0100.00, "FIXED ASSET LEDGER FORMS," for suggested ledger forms.)

Ledgers should be retained after asset disposal for future reference and audit purposes.

Land Improvements ("Infrastructure Assets") are not required to be capitalized on the accounting records. However, ledgers should be maintained for all fixed assets, including land improvements.

9. For assets (other than land improvements) recorded on fixed asset ledger cards, determine the total costs to capitalize in Land (311), Buildings and Improvements (331), and Machinery and Equipment (341). Determine the value attributable to governmental funds and business-type activities. Assets which cannot be identified by specific fund because historical information is not available should be regarded as General Fund assets.

10. Record subsequent fixed asset purchases as shown in the School Accounting Manual, Sections 5-1250.10, .20 and .30. Code the expenditure for fixed assets as discussed in 5-1260.20, "CODING THE ACQUISITION AND CONSTRUCTION OF FIXED ASSETS."

11. Dispose of fixed assets only upon written authorization of the board. See School Accounting Manual, Section 5-1210.30. For assets purchased using federal or state grants, refer to OPI state and federal Grants Handbook.

12. Count inventory yearly. The reason for missing items should be investigated and the loss should be reported for insurance recovery, if applicable. The physical count and the inventory records should be brought into agreement at least once a year using established policies and procedures.

For more information: See section 5-1200 of the School Accounting Manual at <http://www.opi.state.mt.us/pdf/SchoolFinance/SAM.pdf>.

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